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The Effect of Correct Analysis on Doctrine in Political Economy.

I.

Political Economy is now the uppermost study. The vast increase of population and wealth, the multiplication of machines, the continuous invention of new processes, the development of Continental systems of intercommunication, and the binding of the whole world into one great traffic pool, would account for the interest manifested in all quarters.

It is likely, however, that the changes and developments going on in the human mind and in society are doing still more to stimulate desire for economic knowledge. The spirit of Democracy is no longer a local exhalation ; it is moving round the world. Economic emancipation accompanies political enlargement. The great labor movements of the last half century are but playing ripples on the advancing edge of a great tidal wave sweeping on to overwhelm and dissolve all institutions not founded on the everlasting rock.

The thirst for economic knowledge is not only intense and wide-spread ; it descends to the humblest classes. A member of this body (not the writer) argued ably, some years ago, before a teachers' convention in favor of introducing Political Economy into the common schools of a western State. During the year now closing the Commissioner of Labor of that State has resumed the agitation. In a conference of teachers and others interested, it came out that no

one present could suggest any system or scheme for giving such instruction, which would be generally acceptable. Admirers of Carey and Bowen could not tolerate the books of Wayland and Perry ; and disciples of these teachers repudiated the writings of Greeley and Thompson. Supported by eminent authority, some insisted that Political Economy ought not to be taught in the common schools at all, because it is not in any exact sense a science.

It is a popular belief that Political Economy has been an unfruitful field of study, and it is claimed that our young men who have been instructed in our schools and colleges throw their Political Economy to the dogs as soon as they get into the busy world.

If these things are so, all serious suggestions towards simplifying and elucidating the subject, so as to render its doctrine easier of acquirement and application, must be welcome. Our concern, whether as economists or as citizens, is not merely to attain ourselves to true and clear understanding ; it is that, but it is much more, to assist others to sound knowledge and wise practice. Above all, it is important that the truth of things economic should be spread among the men who do the work of the world, and are resolved to know what may be known as to their economic position in society. They already understand that economic reform will accompany if not precede all social and political meliorations.

II.

The matter I desire at this time to submit, can perhaps be best approached by a brief critical reference. For the present purpose the treatises on Political

Economy may be roughly grouped into two classes. Those of the first class are made up severally, of an apparently fortuitous concurrence of essays on various economic topics. Had an alphabetical arrangement been thought of, it would have done just as well. As extreme examples, take these :

1. Value, demand and supply, work, labor, services, capital, agricultural economy, exchange, trade, money, property, distribution, taxation, protection and free-trade.

2. The Nation, population, land, labor, money, taxation, commerce, manufactures, education.

The treatises of the second class are those of men who cannot endure to have all matters thrown into hotchpot, but feel bound to group and arrange them along some line of filiation. This is what must be done in any work pretending to be scientific. Phenomena are to be assorted and grouped, postulates distinguished from maxims, primary causes from secondary causes, efficient from formal causes, corollaries from leading theorems.

However, we are not obliged to contend for a principle. J. S. Mill, master of logic in all its application, set the example of a treatment correct in principle and admirable in many ways, and our best treatises are those framed on his model. It will be contended that a capital error was committed by the great English thinker in ignoring consumption as an integral and fundamental branch of Political Economy.

I think that those who know most about Political Economy will be the most ready to admit that there is room, not only for profound investigation into the subject matter of the science, but for improvements in arrangement and illustration for purposes of in-

struction. The apparent success which attended an experiment of thirteen years in the instruction of undergraduate students in the elements of Political economy on the plan here incidentally outlined, is my only justification for presenting to this body the particular suggestions of this paper.

The same experience has intensified perhaps to excess the conviction which all must share, that a sound knowledge of these elements is the only sure foundation, on which to build any permanent constructions of public or private economy. I propose simply to illustrate the assumption involved in my title,—that correct method and analysis may simplify difficulties, contribute to clear definition and lead the student by a thread of genuine filiation from stage to stage of the subject.

III.

Leaving the term “Political Economy” to serve as a popular title, conveniently vague and flexible, the term “Economics” may be taken into service as a technical equivalent, for scientific use. Economics is a branch of a comprehending science of sociology, naturally divisible for discussion into three fields :

1. The field of ethical relations.
2. The field of industrial relations.
3. The field of jural relations.

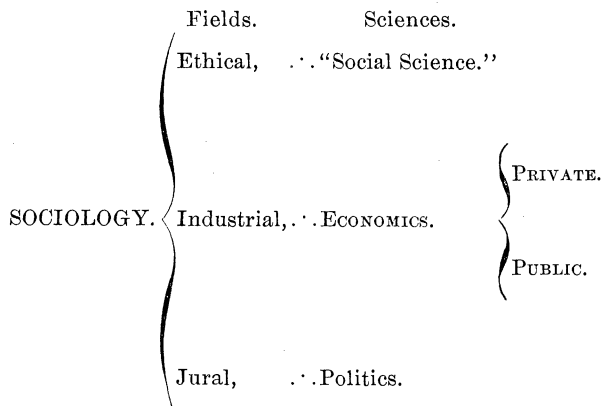
The industrial relations of men who do not exist but in communities are the subject of economic enquiry.

ECONOMICS IS THE SCIENCE OF INDUSTRY.

The industrial field may be viewed from either of the adjacent fields, that is either from the social or

the jural side. Industrial relations may be approached either from the standpoint of society or the State.

If this analysis is correct, we come at once to a natural, fundamental and necessary separation of private from public economics.



If this separation were not radical and necessary, its convenience would commend it. It is a great liberation to a student to know that along one branch of the science lie such topics as labor, wages, profits, value, &c.; and along another branch such as taxation, money, education, the postal establishment, protection, &c. He will, of course, learn at length that some of these titles interlace and spread over the separating boundaries.

IV.

Confining illustration for the present to the field of private economics, I desire to emphasize what seems to me to be a matter of fundamental importance therein,—that the phenomena and doctrine of consumption should be put at the bottom of any rational system or scheme of private economics.

PRIVATE ECONOMICS.

Want.	Work.		
	In Chief.	Subsidiary.	
Consumption.	Production.	Distribution.	Exchange.

The best place to begin anything is at the beginning; and it is a mere truism that the wants and desires of men are the spring and motive of industrial activity. From this starting point the student may see "what it's all about," and may form his best acquaintance with the economic man. It is as consumer that man first appears on the economic field, in the logical order, at least.

In practice it has been found a useful exercise to group a considerable body of phenomena, in order to derive by an inductive process the maxim or leading generalization, that in an advancing state of society, consumption is constant, progressive and cumulative.

This has been followed by an elaboration of the secondary causes or conditions which make consumption to be what it qualitatively at any time may be, under such heads as physical environments including an account of the destructive action of nature, stage of civilization, religion, education, fashion, the folly and wickedness of men, &c.

This exercise serves to interest the student at the very outset in the observation of industrial phenomena,—the use of the inductive method which has been notoriously too much subordinated by economic writers, especially text-book writers.

If one next takes up a quantitative consideration of consumption, the population question naturally presents itself, and it is a great convenience to examine that important topic free from its complications with diminishing returns, rent, wages, and interest.

V.

Having discussed the nature and extent of man's wants and desires, we naturally proceed to inquire into the ways and means by which they may be satisfied. The traditional title of Production serves to group them for convenient treatment. Let me draw a single instance illustrative of my thesis from this department.

The English economists lay down the primary agents of production to be land, labor and capital. The analysis I am now illustrating sets out the primary agencies of production to be two: 1. Nature, 2. Man; nature furnishing matter (*i. e.* land,) and force in many modes; man, furnishing that portion of his efforts to be called labor. Capital, whether there be meant a part of wealth or a body of persons, is not here included as a primary agent of production. Where, then, is the place of capital? It belongs under the head of the results of production. The results of production are two-fold: (1) the satisfaction of want through services in which the corporeal media are inconsiderable; (2) the satisfaction of want through material products called wealth. But the satisfaction through wealth may be immediate or remote. Some portion of wealth at once disappears from the field of production and appears immediately on the scene of consumption. But man is a pro-

vider, *i. e.*, a being who looks before. His experience on the planet has taught him that by reserving from present use some part of his produce and disposing it according to certain ascertained relations he can call into his service the properties of matter and the forces of nature. From a handful of seeds he gathers a harvest; a little flock of sheep gives an increase of heads. Man, the provider, thus arranges for his remote and ultimate satisfaction by reserving a moiety of produce from present consumption. This portion he subjects to further employment in production. And this is capital. Capital, then, being a part of the results of production, being itself a product, cannot be consistently enumerated among the primary agencies of production.

Continuing the analysis, capital naturally subdivides into the two traditional categories of raw materials and instruments, and under the head of instruments, along with tools, implements, vehicles, &c., should logically be scheduled LANDS, meaning by that term *land* subdued, tilled, and otherwise fitted for and used in production. A seed-bed, a garden, a farm is a product and belongs in the genus wealth; and because devoted to further production, to the species capital. The bearing of such a doctrine upon the doctrine of rent is, of course, obvious.

The language of Alexander Hamilton may at this point support those who are doubtful about departing from the traditional teaching on the subject of rent. (See Report on Manufactures, Ann. Cong. 3, 976.) “It seems to have been forgotten that the land itself is a stock or capital advanced or lent by the owner to the occupier or tenant, and that the rent he receives is only the ordinary profit of a certain stock

in land, not managed by the proprietor himself, but by another to whom he lets it."

Under a quantitative consideration of production the doctrine of diminishing returns and also that of over-production naturally fall in.

The suggestions of this section may be illustrated by the following synopsis:

PRODUCTION :

1. Agencies of.

a. Nature.

1. Matter = LAND.

b. Man. ∴ LABOR.

2. * * *

3. Results of.

I. Service.

II. WEALTH.

a. For immediate consumption,

b. For further production =

CAPITAL.

(1) Raw materials.

(2) Instruments.

LANDS.

Animals.

Machines.

Impliments.

Tools.

4. * * *

VI.

Consumption and production are complementary and constitute the quasi-physical side of private economics.

All the phenomena and doctrine of the science might, if sufficient ingenuity were used, be grouped under these two heads. But such a refinement would violate tradition and common sense to no advantage. There are great practical and quasi-ethical questions

which ought not to be forced into undue subordination merely to help out an ingenious synopsis. Distribution and exchange therefore, though in their nature continuations of production by which the proximate results of production are brought to the doors of consumers, demand independent treatment. (See synopsis 2. *ante*.)

At any moment the producing community is in possession of a mass of products vast in bulk and variety. They are for use; they must be used. Want is incessant; desire intense. Instantly the question arises in what order and proportion are the co-operating producers to enjoy these good acts and things? This is the distribution question, and it is at bottom ethical. The question itself postulates (1) justice, (2) the right of individual use, (3) the right of social control of appropriation. There has been no scientific solution of the distribution problem, but distribution has gone on after some fashion from the foundation of the world. The only working solution is the historic one of property and competition, moderated and mitigated by a tardy altruism. We simply distribute as well as we know how up to the present time, and we may expect to improve upon present methods.

Under the head of distribution, such instances as the following may serve to show how a correct analysis may simplify difficulties.

1. Take WAGES. Here the question is, "what share of produce shall be assigned to the operatives?"—what share of current produce, not what share of previous savings, may be available for the actual payment and present settlement of the labor-share of produce. The wage-fund theory, in its crass form, at

least, has here no place or footing. A clear and simple statement of the question at once dissipates an apparently immense obstruction but which was never anything but a fog-bank.

2. Take RENT. If lands have been properly classified as capital, rent assimilates to interest and is the share which a class of producers is warranted in withdrawing in consideration of its coöperation in the productive processes.

Thus used, the term rent may mean just what the men who pay rent and receive it understand by it.

The limits and objects of this paper do not permit a criticism of the Ricardian doctrine. If I were permitted to say two words, they would be that the Ricardians (1) commit the errors of treating a formal cause as an efficient cause or perhaps of treating one part of a compound cause as if it were the whole. (2) They, or some of them, confound the distribution question of the assignment of shares to coöperating producers, with the exchange consideration of land value as affected by monopoly. This view is supported by the authority of a great name. (See Maine, *Village Communities*, p. 190.) "If the writers (*i. e.* Political Economists) had always recollected that a competitive rent is, after all, nothing but price payable by installments, much unnecessarily mysterious language might have been spared and some (to say the least) doubtful theories as to the origin of rent might have been avoided."

3. Take PROFITS: A correct analysis, it is held, makes profits to be the residuum of produce after the withdrawal, in order, of public charges, wages and rent PLUS interest. Up to the point where profits appear, all the parties have taken out ascertainable

and definite portions of produce. Taxes, wages, rent and interest are or are made to be so much, and the receivers depart, resigning all claim to any residuum. If nature bestowed her gifts with equal beneficence, and if men could have perfect knowledge ; if nature never destroyed anything, and if men never made any miscalculations, distribution would, at this point, be complete. There would be no residuum. But men are ignorant and nature capricious ; men are foolish and nature destructive. In consequence, produce is never a certain amount. It is a very uncertain amount and our knowledge of the amount is, up to the present, very inadequate. The amount is in many cases less than our ordinary and reasonable expectations, and the expected residuum appears on the wrong side of our ledgers. These cases we may, however, neglect, for the reason that industries which do not pay ascertained costs cease to be carried on.

The question then is, as to the uncertain and unknown margin of produce over and above the amounts withdrawn by the parties whose shares are ascertainable. Whose shall this margin be, and upon what grounds ?

This Margin, in its nature uncertain and unknowable unless by rough approximation to the coöperating parties in production, is the nucleus and substance of profits. It falls to the employing capitalist as the assignee of all other parties who prefer and are in position to take out ascertainable shares and who desire no risk of loss or diminution of income. The employing capitalist, I say, for no empty-handed entrepreneur, no mercenary "captain of industry" can do what is necessary to entitle him to profits proper. Such a functionary may be entitled

to very great wages of superintendence. It is because wages of superintendence are commonly assignable to the same persons who receive profits, that the nature of profits is obscured and confused with such wages. The receiver of profits must belong to the capital-owning class and possess or control an amount of wealth adequate to assure the coöperating parties in production that their ascertainable shares will be apportioned and paid.

DISTRIBUTION.	Non-Competitive,	State,	Produce.
		Church, etc.	TAXES.
	Competitive,	"LABOR,"	CHARITY.
		"CAPITAL,"	WAGES.
			RENT.
		Non-Employing,	INTEREST.
		Employing, . . .	PROFITS.

VII.

Let it now be granted that the principle of distribution has been settled upon to the satisfaction of all reasonable persons, and the amount of the several shares in their order acceptably determined. There now arises another question; how shall the masses of produce be actually and physically assorted and apportioned to all the parties in interest? This ques-

tion also has its historical solution and the end is accomplished by the function of EXCHANGE. For any other plan we must await the action of our friends, the Socialists. When they are agreed we may possibly adopt new ways. But it is difficult to imagine how parties who shall, under a Socialistic régime, have received each a perfectly just proportion of produce, can be restrained from trading with their neighbors. It is also difficult to imagine how such an idea as that of value can arise, or if that were possible, how it could be ascertained except by, and by means of, actual exchanges. Distribution is merely a process of establishing the rights or claims of coöoperating producers. Exchange establishes equivalencies in products and thereupon actually apportions and delivers them. I must be permitted to introduce here the instance which best of all may illustrate the point of this paper. There are teachers of political economy who thrust the doctrine of value into the faces of the students in the opening passages of their books. Such works, of course, rate the science from the standpoint of the trader, and handle commodities as if they had legs and brains.

The doctrine of value is the most difficult and subtle in the whole science. To thus obtrude it at the opening of an elementary course is misleading and confusing to the last degree. It is like offering Sturm's theorem to the beginner in algebra. Value, instead of being the first word of political economy, is almost the last word. The question of value is much simplified when it is understood that it belongs under the head of exchange and is nowhere else to be raised. It is the perennial vice of the Socialists that they raise the question of value under

the head of production. "Does capital produce value?" is their query, to which the answer may be, "No, neither capital nor labor produces value." They produce satisfaction of human want (if they do produce anything), either by means of services or by means of wealth. Now whether value shall attach either to services or to wealth, depends on their getting into the field of exchange, and upon the relations of persons and property in that field. Keeping in view the proper time and place for the consideration of value, it is less difficult to frame a practical workable definition of that most elusive term. Value is simply THE ASCERTAINED RATIO OF EXCHANGE OF PRODUCTS. This is what value is, exchanges make value to be. A great many modifying circumstances or secondary causes, such as monopoly, cost of production, utility and custom make it to be what in any given case it may be. It is an ancient vice of political economists to confuse efficient and formal causes.

If these examples shall serve, and shall be approved as sufficient, to support the main proposition of this paper, they are enough; if not, then they are more than enough, and others which might be brought in both from private and public economics would fall with them. I submit them to the judgment of the Association, assured of a hearty agreement on all parts in the great desirability of so simplifying the elements of this science by clear analysis "that the wayfaring man, though a fool, may not err therein."